

Message Text

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ACTION SS-25

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EXDIS

DEPT PASS TREASURY

E.O. 11652: GDS
TAGS: EFIN, EG
SUBJECT: GOE MINFINANCE VIEWS ON US POUND HOLDINGS

REF: (A) STATE 19225, (B) CAIRO 1284

1. I TALKED WITH MINFINANCE ABU ISMAIL TODAY ABOUT (A) OUR DESIRE TRANSFER 10 MILLION LE'S TO CHASE AS TIME DEPOSIT; (B) NEED TO OBTAIN HIGHER INTEREST RATE ON ALL OUR PL 480 CURRENCY ACCOUNTS; AND (C) OUR PROPOSAL TO UTILIZE 10 TO 20 PERCENT OF OUR PL480 HOLDINGS FOR USE BY LOCAL BANK TO ENCOURAGE PRIVATE SECTOR. I MENTIONED SUBJECT HAD BEEN DISCUSSED WITH GOVERNOR ZANDOU OF CENTRAL BANK, WHO SUGGESTED IT ALSO BE TAKEN UP WITH ABU ISMAIL. I HAD IN ANY CASE INTENDED TO DO SO. I GAVE HIM SAME AIDE MEMOIRE THAT HAD BEEN LEFT WITH ZANDOU.

2. ABU ISMAIL READ THE MEMO IN MY PRESENCE. HIS IMMEDIATE REACTION WAS THAT THERE IS NO PURPOSE IN UTILIZING ANY OF OUR PL 480 HOLDINGS TO ENCOURAGE PRIVATE SECTOR. THERE ARE ALREADY ENOUGH EGYPTIAN LES AND CREDIT AVAILABLE ON THE MARKET. INTRODUCTION OF ADDITIONAL CREDIT OR CASH INTO THE MARKET WILL HAVE AN INFLATIONARY EFFECT. THIS IS EXACTLY WHAT
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GOE IS SEEKING TO PREVENT. IN THE CIRCUMSTANCES,

HE COULD NOT AGREE TO OUR PROPOSAL. INSTEAD, HE SUGGESTED THAT WE UTILIZE THESE LES TO ASSIST GOE'S PROGRAM OF LOW-COST HOUSING. IF THE LES COULD BE MADE AVAILABLE AT VERY LOW OR NO INTEREST, THIS WOULD BE A MAJOR BENEFIT TO GOE ECONOMIC PROGRAM.

3. SO FAR AS HIGHER INTEREST RETURN IS CONCERNED, ABU ISMAIL MADE THE PREDICTABLE PLEA THAT ASKING FOR THIS WILL ADD NEW BURDENS TO AN ALREADY OVER-BURDENED MINISTRY OF FINANCE. I REMINDED HIM THAT ANY SUCH ADDITIONAL INTEREST EARNING WILL SIMPLY BE CREDITED TO OUR ACCOUNT. WE DO NOT EXPECT TO DRAW DOWN ON THESE ACCOUNTS IN ANY EXTRAORDINARY MANNER, EXCEPT POSSIBLY FOR CONSTRUCTION OR PROPERTY ACQUISITION COSTS. HENCE, ANY ADDITIONAL INTEREST EARNINGS SHOULD NOT BE AN EXCESSIVE BURDEN ON THE EGYPTIAN ECONOMY. NOTING THAT TIME DEPOSITS IN EGYPT ARE NOW ALLOWED TO CARRY AS MUCH AS 5 PERCENT INTEREST, I INDICATED WE WOULD WANT TO NEGOTIATE AN EQUITABLE INTEREST RATE WITH HIM. AFTER MUCH ARGUMENT, ABU ISMAIL FINALLY AGREED THAT WE MIGHT DISCUSS THE MATTER OF HIGHER INTEREST RATES FURTHER. I WILL GIVE HIM A CHANCE TO STUDY OUR AIDE MEMOIRE AND CALL ON HIM THEREAFTER TO PURSUE SUBJECT.

4. ALTHOUGH ABU ISMAIL WAS TEPID ON THE IDEA OF TRANSFER OF 10 MILLION LES TO CHASE, HE INTERPOSED NO FORMAL OBJECTION. HE ASKED WHAT CHASE PLANS TO DO WITH THESE FUNDS. A SIMPLE TIME DEPOSIT WILL NOT ENABLE IT TO BENEFIT FROM THEM. I TOLD HIM THAT CHASE WOULD LIKE TO USE THESE FUNDS FOR LENDING PURPOSES, BUT THAT THIS WILL HAVE TO BE WORKED OUT WITH GOE. ABU ISMAIL REVERTED TO HIS EARLIER COMMENT THAT THERE IS NO SHORTAGE OF LOCAL CURRENCY ON THE MARKET. IT IS HARD CURRENCY WHICH IS NEEDED TO STIMULATE THE PRIVATE SECTUR.

5. ABU ISMAIL AGREED TO STUDY THE ENTIRE MATTER FURTHER TO ALLOW US TO HAVE A FURTHER DISCUSSION ON THE SUBJECT.

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NOTE BY OC/T: NOT PASSED TREASURY.

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